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SUBJECT: DEPUTY U.S. TRADE REPRESENTATIVE KARAN
BHATIA'S VISIT TO KUALA LUMPUR - PREPARING FOR THE
FTA

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Summary and Introduction

1. (SBU) Deputy U.S. Trade Representative Karan Bhatia discussed upcoming negotiations for a U.S.-Malaysia Free Trade Agreement with key economic officials and a leading Malaysian think tank during his March 16-17, 2006 visit to Kuala Lumpur. Ambassador Bhatia's interlocutors provided a positive and pragmatic assessment of the prospects for the FTA, noting in particular that an FTA would support Malaysia's long-term economic goal of transitioning the economy towards a more advanced technology base. The upcoming launch of Malaysia's five-year economic plan would demonstrate more clearly how an FTA would further Malaysia's goals. Many Malaysians are concerned that negotiations on government procurement could force changes to the government's broader socioeconomic policies. However, our explanation of U.S. goals in a government procurement chapter seem to be convincing our interlocutors that we can reach agreement without overturning Malaysia's sensitive preference policies. Both sides agreed to hold the first round of negotiations in Malaysia during the week of June 12. End summary.

Minister Datuk Mohd Effendi Norwawi

2. (SBU) Ambassador Bhatia discussed the Malaysian economy and our strengthening bilateral economic relations, as exemplified by the launch of FTA negotiations, with Minister Effendi Norwawi, Minister in the Prime Minister's office. Effendi oversees the Malaysian Economic Planning Unit and the National Economic Action Council, and has primary responsibility for the Ninth Malaysian Plan (9MP), the government's five-year economic planning document, expected to be announced March 31. Bhatia was accompanied by Ambassador LaFleur, A/USTR Barbara Weisel, and econoffs.

13. (SBU) Effendi told Bhatia that Malaysia viewed an FTA with the United States as a positive, pragmatic step that would compliment Malaysia's primary economic goals. He noted that the 9MP would be very compatible with our mutual FTA goals, in particular through its emphasis on attracting more foreign investment to Malaysia in order to help steer the economy towards more cutting-edge, high technology sectors. Effendi said the government is concerned about increasing competition for foreign investment from China and India, as well as the rest of Southeast Asia. Some statistics show that Malaysia is attracting significantly less foreign investment in recent years, despite the advantages of modern infrastructure and an advanced legal system. Effendi said the 9MP would emphasize new sources of economic growth, including biotechnology and information and communications technology, in which the U.S. holds a predominant advantage. Increased bilateral cooperation through an FTA thus would mesh well with Malaysia's goal of seeking a competitive regional edge in these areas to help Malaysian companies become global leaders.

14. (SBU) Bhatia agreed that the FTA would help Malaysia achieve its goal of creating a more knowledge-based economy. He said the disciplines created in FTA chapters on investment and IPR protection would encourage more U.S. firms to invest in these advanced sectors in Malaysia. Effendi noted that Malaysia's advanced IP legislation and its creation of the Multimedia

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Super Corridor demonstrated the country's seriousness about the sector, though he added that Malaysia's investment in computer hardware development and manufacturing had not been followed so far by significant development in computer software. Effendi also suggested that increased collaboration between U.S. and Malaysian institutions on research and development would be a non-controversial but potentially far reaching result of an FTA. Bhatia agreed, and added that our other FTAs were followed by a burst of cooperation in a range of areas, including tourism and education.

15. (SBU) Bhatia underscored that a comprehensive FTA would need to encompass such areas as government procurement. He emphasized that our insistence on such a chapter did not mean that we approached FTA negotiations with a goal of revising our partner's socioeconomic policies. He added that the United States had its own preference programs with regard to government procurement. Effendi acknowledged that government procurement would be a particularly difficult chapter for FTA negotiators, given the socioeconomic conditions that underpin the government's procurement policies (conditions that include the continued dominance of more than three-fifths of the economy by less than twenty percent of the population, he noted). Nevertheless, Effendi said that the government's recent efforts to make government procurement more efficient and transparent evidenced the government's increasingly practical approach that should enable negotiators to reach an agreement. Speaking more broadly, Effendi also suggested that the FTA could facilitate more partnerships between U.S. firms and Bumiputera (ethnic Malay) businesses, and thus help further, rather than inhibit, the government's socioeconomic development goals.

16. (SBU) Bhatia conveyed President Bush's strong support for an FTA with Malaysia, and said that we would welcome similar expressions of support from the PM, either publicly or privately. He also welcomed Minister of International Trade and Industry (MITI) Rafidah Aziz's participation in the March 8 FTA rollout in Washington, which had also attracted a broad range of support within the U.S. Congress and among U.S. industries. Effendi said that Malaysia's commercial sector welcomed the advent of FTA talks as well and would be an ally as we seek to conclude negotiations on an accelerated schedule. He noted that Rafidah's strong support for an FTA was rooted in her pragmatic approach to seek an agreement that would benefit Malaysia. While not as vocal as Rafidah, the PM's strong hand in the development of the 9MP likewise indicated his pragmatic, reformist approach, in sync with what Malaysia would seek in an FTA.

Ministry of International Trade and Industry
(MITI)

17. (SBU) Bhatia met with MITI Secretary General Sidek Hassan and other MITI officials (including Deputy Secretary General Ooi Say Chuan and principal negotiator Jayasiri) to discuss the recent FTA launch and to prepare the way for negotiations. Bhatia emphasized our intention to work closely with MITI to present a common public stance in the course of negotiations. He noted that USTR necessarily emphasized the benefits of the FTA to the U.S. in its publicly released documents, but the United States clearly believed that the FTA would be of benefit to Malaysia as

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well. Sidek noted that FTAs, in particular the recently completed Malaysia-Japan economic cooperation agreement as well as the pending FTA with the U.S., were receiving increasing attention both within the Malaysian parliament and among non-state actors in Malaysia. MITI already had heard from NGOs such as the Consumers Association of Penang with concerns that a developing country like Malaysia would be at a disadvantage in negotiating FTAs with developed countries. Sidek said MITI plans to engage with concerned NGOs before and during the negotiations, but would do so privately. Jayasiri and Ooi both suggested that the U.S. should concentrate its in-country FTA engagement on relevant business stakeholders, and leave MITI to handle NGO concerns.

18. (SBU) Bhatia said his visit demonstrated the United States' strong commitment to successful FTA negotiations. His diverse schedule of meetings was a means to further exchange views in advance of the talks. He strongly suggested that Malaysia do likewise by raising the level of its engagement in Washington. USTR would keep Congress informed of our progress as we moved through the negotiations, but Congress would also expect more direct interaction with senior Malaysian officials. Such contact would be crucial in building a coalition on the Hill in favor of FTA ratification. Bhatia called for both sides to conduct ambitious negotiations in order to demonstrate the real, positive changes that an FTA would bring for both economies. Sidek noted that MITI, including Minister Rafidah, was already feeling political heat regarding possible changes

to Malaysia's government procurement policies as a result of the FTA. Weisel responded that USTR wished to discuss government procurement with MITI in more detail prior to the first round so that both sides would be well prepared to negotiate the procurement chapter. Bhatia said that negotiations of all parts of the FTA must be pragmatic. He emphasized that the U.S. would not seek to overturn Malaysia's socioeconomic policies through an FTA. Sidek responded that negotiators should be able to reach a common position that would be acceptable to both sides.

¶9. (SBU) Turning to logistical issues, Sidek said Malaysia agreed to the dates suggested earlier by USTR for five rounds of negotiations during the weeks of June 12, July 17, September 17, October 30, and December 11. Both sides agreed that the first round would be held in Malaysia, probably in Kuala Lumpur, while the second round would likely take place in the western United States.

Institute of Strategic and International Studies
(ISIS)

¶10. (SBU) Senior officials of this leading Malaysian think tank provided Ambassador Bhatia an outside, relatively independent Malaysian view of the prospects for an FTA between the U.S. and Malaysia. Assistant Director General Steven Wong told Bhatia that the time was right politically for Malaysia to negotiate an FTA, as the current government had demonstrated the will to negotiate an agreement, and conclusion of the FTA was slated to occur well before the next round of national elections take place. Wong warned that there will be significant resistance to some of the measures that the U.S. will propose in the course of FTA talks, especially regarding services liberalization, but that such reform will be necessary sooner or later even absent an FTA, given the direction of liberalization in the WTO

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and through the ASEAN FTA. Wong said that the government wants the Malaysian economy to continue to evolve into new areas, but for political purposes likely would not promote the FTA in a very public way. Wong's colleague Stephen Leong noted that the United States was an attractive destination for Malaysian investment, but that Malaysia is increasingly concentrating its foreign investment closer to home, particularly in China (in the manufacturing sector) and in India (in telecommunications). Leong added that one of the tenets of Malaysian foreign economic policy was "prosper thy neighbor," thus its interests in investing closer to home, but he said the government would seek investment wherever it made sense.

¶11. (SBU) Wong and Leong said that Trade Minister Rafidah would be the key decision maker on most aspects of the FTA. They suggested that the Cabinet would look to the Prime Minister for guidance when it comes to any particularly controversial decisions related to the FTA, however, adding that they believed the PM should be able to overcome any dissent if that is his desire.

Comment

¶12. (SBU) Bhatia's interlocutors were uniformly positive about the prospects of the U.S.-Malaysia FTA. They also conveyed an expectation that Malaysians would judge an FTA with the United States to support Malaysia's primary economic development objectives, and thus an FTA would be broadly welcomed in the end. For now government procurement appears to be the most prominent potential impediment. However, we believe additional education of our negotiating partners on our government procurement sector (including our own preference programs and the opportunities that will be created for Malaysian firms to bid on USG procurements), in particular before the first round, would help alleviate GOM concerns and pave the way for productive negotiations of this chapter.

¶13. (U) Ambassador Bhatia has cleared this cable.

LAFLEUR